

CITY OF MILFORD
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2008

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CITY OF MILFORD
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2008)		
Virgil Wahlman	Mayor	January 1, 2008
Donald Lamb	Mayor Pro-Tem	January 1, 2010
Michael Anderson	Council Member	January 1, 2008
Keith Feller	Council Member	January 1, 2010
Don Gude	Council Member	January 1, 2008
Rick Kilts	Council Member	January 1, 2008
Bryan Read	City Administrator/Treasurer	Indefinite
David Stein, Sr.	Attorney	Indefinite
(After January 2008)		
Virgil Wahlman	Mayor	January 1, 2010
Donald Lamb	Mayor Pro-Tem	January 1, 2010
Michael Anderson	Council Member	January 1, 2012
Keith Feller	Council Member	January 1, 2010
Rick Kilts	Council Member	January 1, 2012
Todd Schillinger	Council Member	January 1, 2012
Bryan Read	City Administrator/Treasurer	Indefinite
David Stein, Sr.	Attorney	Indefinite

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Milford, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Milford's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Milford, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position - cash basis of the reporting entity of the City of Milford as of June 30, 2008, and the changes in its financial position - cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Milford as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2008 on our consideration of The City of Milford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 17 through 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements of the City's primary government for the three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wintner, Stane + Co., LLP

September 8, 2008

BASIC FINANCIAL STATEMENTS

CITY OF MILFORD
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 451,851	\$ 36,387	\$ 51,807	
Public works	265,510	3,620	211,954	
Health and social services	1,000			
Culture and recreation	360,011	2,655	28,719	
Community and economic development	29,218	33,217		
General government	285,685			
Debt service	98,788			
Capital projects	524,647			
Total governmental activities	<u>2,016,710</u>	<u>75,879</u>	<u>292,480</u>	
Business-type activities:				
Sewer	97,911	88,700		
Solid waste	305,965	247,741		
Total business-type activities	<u>403,876</u>	<u>336,441</u>		
TOTAL	<u>\$2,420,586</u>	<u>\$412,320</u>	<u>\$292,480</u>	

General Receipts:

Property and other city taxes levied for:

General purposes

Tax increment financing

Debt service

Local option sales tax

Unrestricted interest on investments .

Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets - beginning of year

Cash basis net assets - end of year

Cash basis net assets

Restricted:

TIF supported projects

Debt service

Streets

Other purposes

Unrestricted

Total cash basis net assets

See Notes to Financial Statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (363,657)		\$ (363,657)
(49,936)		(49,936)
(1,000)		(1,000)
(328,637)		(328,637)
3,999		3,999
(285,685)		(285,685)
(98,788)		(98,788)
(524,647)		(524,647)
<u>(1,648,351)</u>		<u>(1,648,351)</u>
	\$ (9,211)	(9,211)
	<u>(58,224)</u>	<u>(58,224)</u>
	<u>(67,435)</u>	<u>(67,435)</u>
<u>(1,648,351)</u>	<u>(67,435)</u>	<u>(1,715,786)</u>
939,141		939,141
6,506		6,506
73,054		73,054
397,976		397,976
70,636	974	71,610
54,789	692	55,481
(13,432)	13,432	
<u>1,528,670</u>	<u>15,098</u>	<u>1,543,768</u>
(119,681)	(52,337)	(172,018)
<u>2,177,344</u>	<u>81,806</u>	<u>2,259,150</u>
<u>\$2,057,663</u>	<u>\$29,469</u>	<u>\$2,087,132</u>
\$ 742,427		\$ 742,427
774		774
23,730		23,730
46,802		46,802
<u>1,243,930</u>	<u>\$29,469</u>	<u>1,273,399</u>
<u>\$2,057,663</u>	<u>\$29,469</u>	<u>\$2,087,132</u>

See Notes to Financial Statements

CITY OF MILFORD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

		Special Revenue	
		TIF	
	General	Supported Projects	Road Use
RECEIPTS:			
Property tax	\$ 805,682		
Tax increment financing		\$ 6,506	
Other city tax	337,976		
Licenses and permits	40,039		
Use of money and property	48,767	31,416	
Intergovernmental	77,044		\$211,954
Charges for service	4,831		
Miscellaneous	77,168		
TOTAL RECEIPTS	<u>1,391,507</u>	<u>37,922</u>	<u>211,954</u>
DISBURSEMENTS:			
Operating:			
Public safety	451,851		
Public works	46,795		218,715
Health and social services	1,000		
Culture and recreation	360,011		
Community and economic development	29,218		
General government	285,685		
Debt service			
Capital projects	153,792	350,590	
TOTAL DISBURSEMENTS	<u>1,328,352</u>	<u>350,590</u>	<u>218,715</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>63,155</u>	<u>(312,668)</u>	<u>(6,761)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	119,986		3,234
Operating transfers out	(3,234)	(47,343)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>116,752</u>	<u>(47,343)</u>	<u>3,234</u>
NET CHANGE IN CASH BALANCES	179,907	(360,011)	(3,527)
CASH BALANCES - BEGINNING OF YEAR	<u>1,064,023</u>	<u>1,102,438</u>	<u>27,257</u>
CASH BALANCES - END OF YEAR	<u>\$1,243,930</u>	<u>\$ 742,427</u>	<u>\$ 23,730</u>
CASH BASIS FUND BALANCES:			
Reserved for debt service			
Unreserved:			
General fund	\$1,243,930		
Special revenue funds		\$ 742,427	\$ 23,730
TOTAL CASH BASIS FUND BALANCES	<u>\$1,243,930</u>	<u>\$ 742,427</u>	<u>\$ 23,730</u>

See Notes to Financial Statements

Exhibit B

<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$73,054	\$133,459	\$1,012,195
		6,506
	60,000	397,976
		40,039
362	2,203	82,748
		288,998
		4,831
		<u>77,168</u>
<u>73,416</u>	<u>195,662</u>	<u>1,910,461</u>
		451,851
		265,510
		1,000
		360,011
		29,218
		285,685
98,788		98,788
	<u>20,265</u>	<u>524,647</u>
<u>98,788</u>	<u>20,265</u>	<u>2,016,710</u>
<u>(25,372)</u>	<u>175,397</u>	<u>(106,249)</u>
47,343		170,563
	<u>(133,418)</u>	<u>(183,995)</u>
<u>47,343</u>	<u>(133,418)</u>	<u>(13,432)</u>
21,971	41,979	(119,681)
<u>(21,197)</u>	<u>4,823</u>	<u>2,177,344</u>
<u>\$ 774</u>	<u>\$ 46,802</u>	<u>\$2,057,663</u>
\$ 774		\$ 774
		1,243,930
	<u>\$ 46,802</u>	<u>812,959</u>
<u>\$ 774</u>	<u>\$ 46,802</u>	<u>\$2,057,663</u>

See Notes to Financial Statements

CITY OF MILFORD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Solid Waste	Nonmajor Proprietary Fund Sewer	Total
OPERATING RECEIPTS:			
Charges for service	\$247,741	\$88,700	\$336,441
Use of money and property	720	254	974
Miscellaneous	495	197	692
TOTAL RECEIPTS	<u>248,956</u>	<u>89,151</u>	<u>338,107</u>
OPERATING DISBURSEMENTS:			
Business type activities	<u>305,965</u>	<u>97,911</u>	<u>403,876</u>
TOTAL OPERATING DISBURSEMENTS	<u>305,965</u>	<u>97,911</u>	<u>403,876</u>
DEFICIENCY OF OPERATING RECEIPTS UNDER OPERATING DISBURSEMENTS	(57,009)	(8,760)	(65,769)
OPERATING TRANSFERS IN	<u>9,134</u>	<u>4,298</u>	<u>13,432</u>
NET CHANGE IN CASH BALANCES	(47,875)	(4,462)	(52,337)
CASH BALANCES - BEGINNING OF YEAR	<u>64,128</u>	<u>17,678</u>	<u>81,806</u>
CASH BALANCES - END OF YEAR	<u>\$ 16,253</u>	<u>\$13,216</u>	<u>\$ 29,469</u>
CASH BASIS FUND BALANCES:			
Unreserved	<u>\$ 16,253</u>	<u>\$13,216</u>	<u>\$ 29,469</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 16,253</u>	<u>\$13,216</u>	<u>\$ 29,469</u>

CITY OF MILFORD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCE
FIDUCIARY FUND
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Agency Fund
RECEIPTS:	
Additions	\$6,013
Interest	<u>43</u>
TOTAL RECEIPTS	6,056
 CASH BALANCE - BEGINNING OF YEAR	 <u>1,587</u>
 CASH BALANCE - END OF YEAR	 <u>\$7,643</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milford, Iowa is a political subdivision of the State of Iowa located in Dickinson County. The City operates under the Mayor-Council form of government with the Mayor and City Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides solid waste and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. These financial statements present the primary government of the City of Milford but do not include any component units for which it is financially accountable.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Milford Municipal Utilities is considered a component unit of the City of Milford. The financial statements of this component unit are audited by other auditors and are presented on the accrual basis of accounting. Complete financial statements of Milford Municipal Utilities can be obtained from their administrative offices. Therefore, the City has elected not to include Milford Municipal Utilities in these financial statements.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Dickinson County Assessor's Conference Board, Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, Dickinson County Water Quality Commission, Dickinson County Joint E911 Service Board, and Dickinson County Sanitary Landfill Commission.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the primary government of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds and a fiduciary fund. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The only nonmajor proprietary fund is included in a separate column in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The TIF Supported Projects Fund is used to account for projects financed by tax increment financing.

The Road Use Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

Additionally, the City reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste utility.

C. Measurement Focus and Basis of Accounting

The City of Milford maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable or accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the capital projects function.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. BOND PAYABLE

Annual debt service requirements to maturity for the urban renewal tax increment financing revenue bond are as follows:

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Bond	
	<u>Principal</u>	<u>Interest</u>
2009	<u>\$95,000</u>	<u>\$4,512</u>

The urban renewal tax increment financing (TIF) revenue bond was issued for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bond is payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue,

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

3. BOND PAYABLE - Continued

TIF Supported Projects Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bond shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bond is not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The City reserves the right to call and prepay any principal amount of the Urban Renewal Tax Increment Financing Revenue Bond issued January 8, 1999 at any time. In the event of prepayment on a date other than an interest payment date, interest shall be paid to the date of prepayment only.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$42,258, \$42,245, and \$39,381, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$19,300
Sick leave	44,000
Compensatory time	<u>6,100</u>
Total	<u>\$69,400</u>

The liability for compensated absences has been computed based on rates of pay in effect at June 30, 2008.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

6. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Amount</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Road Use	\$ 3,234	General	\$ 3,234
General	119,986		
Proprietary: Solid Waste	9,134		
Proprietary: Sewer	4,298	Special Revenue: Employee Benefits	133,418
	<u>133,418</u>		
Special Revenue: Debt Service	47,343	Special Revenue: TIF Supported	47,343
	<u>47,343</u>		
Total	<u>\$183,995</u>	Total	<u>\$183,995</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

7. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$9,634 during the year ended June 30, 2008.

8. LOCAL GOVERNMENT RISK POOL

The City of Milford is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

8. LOCAL GOVERNMENT RISK POOL - Continued

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Milford's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Milford's annual contributions to the Pool for the year ended June 30, 2008 were \$60,211.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of the membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Milford also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

9. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of governmental operations. These legal proceedings are not expected to have a material adverse impact on the City's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILFORD
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>
RECEIPTS:			
Property tax	\$1,012,195		\$1,012,195
Tax increment financing	6,506		6,506
Other city tax	397,976		397,976
Licenses and permits	40,039		40,039
Use of money and property	82,748	\$ 974	83,722
Intergovernmental	288,998		288,998
Charges for service	4,831	336,441	341,272
Miscellaneous	77,168	692	77,860
TOTAL RECEIPTS	<u>1,910,461</u>	<u>338,107</u>	<u>2,248,568</u>
DISBURSEMENTS:			
Public safety	451,851		451,851
Public works	265,510		265,510
Health and social services	1,000		1,000
Culture and recreation	360,011		360,011
Community and economic development	29,218		29,218
General government	285,685		285,685
Debt service	98,788		98,788
Capital projects	524,647		524,647
Business type activities		403,876	403,876
TOTAL DISBURSEMENTS	<u>2,016,710</u>	<u>403,876</u>	<u>2,420,586</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	(106,249)	(65,769)	(172,018)
OTHER FINANCING SOURCES, NET	<u>(13,432)</u>	<u>13,432</u>	
DEFICIENCY OF RECEIPTS AND OTHER FINANCING SOURCES UNDER DISBURSEMENTS AND OTHER FINANCING USES	(119,681)	(52,337)	(172,018)
BALANCES - BEGINNING OF YEAR	<u>2,177,344</u>	<u>81,806</u>	<u>2,259,150</u>
BALANCES - END OF YEAR	<u>\$2,057,663</u>	<u>\$ 29,469</u>	<u>\$2,087,132</u>

Budgeted Amounts		Final to Total
Original	Final	Variance Positive (Negative)
\$ 937,083	\$ 937,083	\$ 75,112
75,394	75,394	(68,888)
351,241	351,241	46,735
26,150	26,150	13,889
27,600	27,600	56,122
310,700	310,700	(21,702)
328,800	328,800	12,472
46,250	46,250	31,610
<u>2,103,218</u>	<u>2,103,218</u>	<u>145,350</u>
515,770	515,770	63,919
288,165	288,165	22,655
9,500	9,500	8,500
461,740	461,740	101,729
46,850	46,850	17,632
315,765	315,765	30,080
159,060	159,060	60,272
115,000	520,000	(4,647)
361,855	410,000	6,124
<u>2,273,705</u>	<u>2,726,850</u>	<u>306,264</u>
(170,487)	(623,632)	451,614
<u> </u>	<u> </u>	<u> </u>
(170,487)	(623,632)	<u>\$451,614</u>
<u>1,172,677</u>	<u>1,172,677</u>	
<u>\$1,002,190</u>	<u>\$ 549,045</u>	

See Accompanying Independent Auditors' Report

CITY OF MILFORD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$453,145. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the capital projects function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MILFORD
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN
 CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR YEAR ENDED JUNE 30, 2008

	Special Revenue			
	Local Option Sales Tax	Employee Benefits	Property Forfeiture	Total
RECEIPTS:				
Property tax		\$133,459		\$133,459
Other city tax	\$60,000			60,000
Use of money and property	2,203			2,203
TOTAL RECEIPTS	<u>62,203</u>	<u>133,459</u>		<u>195,662</u>
DISBURSEMENTS:				
Capital Projects	<u>20,265</u>			<u>20,265</u>
TOTAL DISBURSEMENTS	<u>20,265</u>			<u>20,265</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	<u>41,938</u>	<u>133,459</u>		<u>175,397</u>
OTHER FINANCING USES:				
Operating transfers out		<u>(133,418)</u>		<u>(133,418)</u>
NET CHANGE IN CASH BALANCES	41,938	41		41,979
CASH BALANCES - BEGINNING OF YEAR	<u>2,997</u>	<u>797</u>	<u>\$1,029</u>	<u>4,823</u>
CASH BALANCES - END OF YEAR	<u>\$44,935</u>	<u>\$ 838</u>	<u>\$1,029</u>	<u>\$ 46,802</u>
CASH BASIS FUND BALANCES:				
Unreserved:				
Special revenue funds	<u>\$44,935</u>	<u>\$ 838</u>	<u>\$1,029</u>	<u>\$ 46,802</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$44,935</u>	<u>\$ 838</u>	<u>\$1,029</u>	<u>\$ 46,802</u>

CITY OF MILFORD
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2008

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Urban Renewal Tax Increment Financing (TIF) Revenue Bond: 1999 Issue	January 8, 1999	4.75%	\$775,000

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
<u>\$185,000</u>	<u> </u>	<u>\$90,000</u>	<u>\$95,000</u>	<u>\$8,788</u>	<u> </u>

See Accompanying Independent Auditors' Report

CITY OF MILFORD
BOND MATURITIES
JUNE 30, 2008

Urban Renewal Tax
Increment Financing (TIF)
Revenue Bond

<u>Issued January 8, 1999</u>		
<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2009	4.75	<u>\$95,000</u>

CITY OF MILFORD
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
RECEIPTS:				
Property tax	\$1,012,195	\$ 854,348	\$ 742,912	\$ 678,423
Tax increment financing	6,506	439,576	587,556	513,594
Other city tax	397,976	452,801	375,046	381,954
Licenses and permits	40,039	35,620	54,283	23,379
Use of money and property	82,748	122,466	79,898	34,081
Intergovernmental	288,998	297,225	290,803	308,921
Charges for service	4,831	41,218	75,373	16,355
Miscellaneous	<u>77,168</u>	<u>57,989</u>	<u>80,549</u>	<u>191,023</u>
 TOTAL REVENUES	 <u>\$1,910,461</u>	 <u>\$2,301,243</u>	 <u>\$2,286,420</u>	 <u>\$2,147,730</u>
 DISBURSEMENTS:				
Operating:				
Public safety	\$ 451,851	\$ 439,550	\$ 354,577	\$ 439,934
Public works	265,510	405,658	407,159	327,265
Health and social services	1,000	2,000	2,100	3,511
Culture and recreation	360,011	315,669	286,487	233,151
Community and economic development	29,218	38,422	71,418	62,476
General government	285,685	296,173	317,285	271,992
Debt service	98,788	134,562	159,643	271,401
Capital projects	<u>524,647</u>	<u>730,810</u>	<u>45,126</u>	<u>122,584</u>
 TOTAL EXPENDITURES	 <u>\$2,016,710</u>	 <u>\$2,362,844</u>	 <u>\$1,643,795</u>	 <u>\$1,732,314</u>

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Milford, Iowa as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated September 8, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Milford's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Milford's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Milford's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and one deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects City of Milford's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Milford's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in

internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the primary government of the City of Milford are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the primary government of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Milford's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Milford's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the City of Milford may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Milford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winther, Starn & Co., LLP

September 8, 2008

CITY OF MILFORD
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-08 Segregation of Duties - One important aspect of internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted employees were performing incompatible functions.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Council maintain its diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

I-B-08 Financial Institution Accounts Not Reflected in City Financial Records - During our audit, we noted one financial institution account from which expenditures are made without approval by the City Council. Also the City did not receive the bank statements or any other type of financial reporting for this account and did not include the activity or balances of the account in its monthly financial reports. The balance and activity in the account are reflected as an agency fund on page 9.

Recommendation - We recommend the City Council approve all expenditures from this account. Statements for the account should be delivered to City offices and activity and balances in the account should be reflected in City financial records.

Response - The balance in the account is expected to be used during fiscal 2009 or transferred to other City accounts.

Conclusion - Response acknowledged.

I-C-08 Reporting Financial Data - Reporting financial data reliably on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. As is a common situation in small entities, management presently is not able to entirely fulfill these responsibilities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses would improve management's ability to prepare and take complete responsibility for reliable cash basis financial statements.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2008

Response - Management will consider steps which could be taken to improve the ability to prepare and take complete responsibility for reliable cash basis financial statements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting

- II-A-08 Certified Budget - Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-08 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-08 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-08 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Virgil Wahlman, Mayor, Owner of Marvil, Inc.	Developer agreement payment	\$9,634

This transaction does not appear to represent a conflict of interest as defined by Chapter 362.5 of the Code of Iowa as there was a signed developer rebate agreement related to this expenditure.

- II-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- II-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting - Continued

II-G-08 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-08 Publication of Salaries - We noted the City did not publish annual gross salaries as required by Chapter 372.13 of the Code of Iowa and in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The City should publish annual individual salaries as required.

Response - We will annually publish individual gross salaries for all employees.

Conclusion - Response accepted.